



2010

FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

COMPANY: GFSI, Inc.

COUNTRY: Peru

FACTORY CODE: 0300581123I

MONITOR: GMIES

AUDIT DATE: June 30 – July 2, 2010

PRODUCTS: Shirts

PROCESSES: Spinning, Weaving, Dyeing,
Laundry, Cutting, Sewing, Ironing,
Packaging, Exporting

NUMBER OF WORKERS: 1885



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*Denotes a Notable Feature

Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

Noncompliance

Explanation: Compensation for Length of Service Law establishes it compulsory for all employers to make 2 deposits per year in every employee's bank account. These deposits must be made in the first 15 days of May and November (Articles 21 and 22 of the law). However, factory has made individual covenants with workers in order to evade such obligations. These covenants exempt management from compulsorily making the deposits and engaging to provide workers with their Compensation for Length of Service (CTS) in the case they are fired. But, Article 34 of CTS Law claims that starting from January 1, 2003, these individual covenants are not valid; employers are required to make relevant deposits into workers' bank accounts. [Factory name], however, continues signing these types of covenants with workers, when it is banned by law.

Plan Of Action: Factory should discontinue use of individual covenants between factory and employee, which allow factory to exempt itself from the compulsory deposits. Factory must begin to make compulsory payments to CTS bank account starting November 15th and ensure payments are made on May 15th and November 15th in the future. Workers who leave factory must be paid correct CTS amount at time of employment termination. No new individual covenants may be created. Ensure a management member or team is in charge of ensuring that individual covenants are not used, and that full payments are being made on time. Create training program to explain to workers that factory will begin paying into CTS bank account on November 15. Ensure that workers understand factory is responsible for paying and will pay fully-earned CTS if they leave factory.

September 2010: Prepare to make compulsory payments and create training.

October 2010: Hold trainings with employees and document. Send evidence of training (photos, materials).

November 2010: Make compulsory payments to CTS account. Send payment receipt, including list of workers and deposit slips. Going forward, assign a member of management to ensure compulsory payments to CTS accounts are made every May and November. Send payment receipt, including list of workers and deposit slips.

Deadline Date: 11/26/2010

Supplier CAP:

1. Individual CTS agreements are no longer used by factory.
2. Each employee will be properly informed of all CTS deposits, on an individual basis. Each CTS deposit in a bank account generates a liquidation to be prepared by factory that must be delivered to each employee.
3. Documentation demonstrating bank deposits are available in our offices at your request.
4. Plan concerning bank deposits will be supervised and controlled by factory's Administrative Manager. By December 2010 the opening of all CTS employee's bank accounts will be completed, starting the deposits in the fiscal year of 2011.

Supplier CAP 12/13/2010

Date:

Action May 2011: Factory has completed CTS payments according to plan.

Taken:

Plan No

Complete:

Plan

Complete

Date:

Wages, Benefits and Overtime Compensation: Deposit of Legally Mandated Deductions

WBOT.13 All legally mandated deductions for taxes, social insurance, or other purposes shall be deposited each pay period in the legally defined account or transmitted to the legally defined agency. This includes any lawful garnishments for back taxes, etc. The employer shall not hold over any of these funds from one pay period to the other unless the law specifies that deposits are to be made less frequently than pay periods (e.g., monthly deposits, weekly pay). If the law does not specify, then deposits shall be made before the next pay period in all cases. (S)

Noncompliance

Explanation: From payroll review, it was corroborated that factory had not paid pension fund contributions to workers registered under private pension system (AFP). Contributions corresponding to the last 12 months (July 2009-June 2010) were paid by management the 3rd day of the audit (July 2). Regarding social security contributions, an 8-day delay was corroborated for the payment corresponding to June.

Plan Of Action: Ensure that AFP payments are made during month they are due, in full, and on time. Ensure member of management is in charge of ensuring AFP payments are made in full and on time. Please advise if July and August AFP payments have been made and send documentation showing date of payment. Please continue to send this confirmation of payment to Gear For Sports, Inc. (GFSI) monthly for verification.

Immediately: Send documentation showing AFP payments made in July and August.

Monthly: Send documentation showing AFP payments made each month.

Deadline Date: 09/30/2010

Supplier CAP:

1. Documents evidencing AFP deposits are available in our offices at your request.
2. Payments can be even audited on a monthly basis, at your request. Payments up to August are in progress and will be fully paid by December 2010. Documentation will be at your disposal for verification.

Supplier CAP Date: 12/13/2010

Action Taken: May 2011: Factory has submitted updated plan to pay AFP payments without delay by January 2012.

Plan Complete: No

Plan
Complete
Date:

Wages, Benefits and Overtime Compensation: Employer Provided Services

WBOT.16 All workers have a right to use or not to use employer provided services, such as housing or meals. Deductions for services to workers shall not exceed the cost of the service to the employer. Employers must be able to demonstrate the accuracy or reasonableness of these charges. (P)

Notable Feature

Explanation: Factory provides additional monetary benefits to workers:

1. 60% of the price of the food, and
 2. Some amount of money for transportation, depending on distance between factory and worker's home.
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Wages, Benefits and Overtime Compensation: General Compliance Wages, Benefits and Overtime Compensation

WBOT.1 Employers shall comply with all local laws, regulations and procedures concerning the payment of wages and benefits, including overtime compensation. In any case where laws and the FLA Code are contradictory, the standard that provides the greatest protection for workers shall apply. Where provisions are lacking, employers shall take measures to reasonably accommodate matters concerning the payments of wages and benefits, including overtime compensation. (S)

Uncorroborated Evidence of Noncompliance

Explanation: According to 2 off-site worker interviews, factory does not completely pay legal benefits (called “gratifications”) that Peruvian law requires to be paid to all employees in July and December. These 2 workers assured that management pays a part of these benefits with money and the rest with defective clothing. By payroll review, it was not possible to undoubtedly verify if factory makes payments lawfully, as apparently, all employees have signed receipt of the relevant “gratifications.” But, in payroll, several payments were found less than legal amount established for each “gratification” (1 month’s salary), and paid outside of the legal periods (first 15 days of July and December). When management was asked about this curious situation, they explained that these payments were advances requested by workers.

Plan Of Action: Factory should completely pay, in full, gratification benefits due to all employees each July and December. All payments must be made fully in local currency and on time to workers. Ensure that member of management is responsible for making payments. Hold a worker training so all workers understand they should be receiving this payment and how much they should receive. Have employees sign a form indicating receipt of training and confirming their understanding.

Immediately: Ensure all payments are made in full to workers in local currency.

September 2010: Make plans for paying gratifications in December, in full and in local currency.

October 2010: Conduct employee training. Send evidence of training (photos, materials).

December 2010 and each July and December following: Pay workers’ gratifications due to them, in full and in local currency. Send receipt of payment.

Deadline Date: 12/31/2010



**Supplier
CAP:**

**Supplier CAP
Date:**

**Action
Taken:** Factory fully pays legal bonuses, and necessary measures will be taken in order to comply timely on bonuses corresponding with December 2010. Bonus training is properly covered at hiring process when employees begin their employment relationship with factory. In this regard, legal bonus of July has been paid fully; documents showing payment are at your disposal.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 12/13/2010

Code Awareness:

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

Noncompliance

Explanation: Factory has posted company code in a prominent place, but there is no documentary evidence that workers are orally informed of code provisions. Confirmed by worker interviews: 100% of sample of workers interviewed not aware of company code.

Plan Of Action: Ensure that during worker orientation and at regular intervals workers are informed of GFSI Code of Conduct (COC). Ensure that all workers sign a form stating that they were notified of GFSI's COC. Ensure that member of management is in charge of holding training and having workers sign form.

October 2010: Review GFSI, FLA and other customers' COCs with workers and have them sign acknowledgement of training forms. Forms to be kept in each employee file.

Deadline Date: 10/29/2010

Supplier CAP:

Supplier CAP Date:

Action Taken: There is a large COC poster placed in a visible place easily accessible to all collaborators. Moreover, in initial induction training given to all employees, they are instructed on provisions contained in referred COC. As of today, [Factory name] has documentary evidence regarding knowledge of COC by all our employees. Photos attached.

Plan Complete: Yes

Plan Complete Date: 12/13/2010

Code Awareness:

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

Noncompliance

Explanation: There is not a secure and confidential channel for workers to report any noncompliance to company.

Plan Of Action: GFSI COC includes phone number and email for workers to contact GFSI directly. Ensure that this version of code is posted in areas where workers can review.

September 2010: Send photos and confirmation that GFSI code is posted with GFSI contact information.

Deadline Date: 09/30/2010

Supplier CAP:

Supplier CAP Date:

Action Taken: In COC poster placed in a visible place, telephone and email of GSFI is written, which is easily accessible to employees. Factory provided all documents GSFI requires from its vendors worldwide.

Plan Complete: Yes

Plan Complete Date: 12/13/2010

Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Noncompliance

Explanation: From inspection tour, corroborated that workers handling benzene in production lines were not using respiratory personal protection equipment (PPE).

Plan Of Action: Ensure that workers who handle benzene are provided with respiratory PPE. Appoint supervisors to ensure workers who use benzene are using this PPE when using benzene. Training should be held for workers who handle this chemical. Training should include proper use of respiratory equipment and the dangers of not using PPE. Such training should be conducted yearly and at orientation.

September 2010: Provide workers with respiratory PPE and training. Send evidence (photos, training materials) and post posters in workplace showing type and use of relevant PPE.

September 2011: Provide workers with respiratory PPE and training. Send evidence (photos, training materials).

Deadline Date: 09/30/2010

Supplier CAP:

Supplier CAP Date:

Action Taken:

1. Supervisors must verify and require all employees to use appropriate PPE.
2. This obligation is included in Directive No. 002 concerning Safety and Protection Against Work-Related Accidents.
3. Regular training meetings are being held.
4. Photos refer to use of masks. Proper protective masks for use with benzene and/or new cleaning product will be available during December 2010.

Plan Yes
Complete:

Plan 12/13/2010
Complete
Date:

Health and Safety: Sanitation in Factory Facilities

H&S.22 All facilities including factory buildings, toilets, canteens, kitchens, and clinics, shall be kept clean and safe and be in compliance with all applicable laws, including relevant sanitation, medical and safety and health regulations. (S)

Noncompliance

Explanation: During morning of 3rd day of audit, auditors' team conducted deep inspection tour in Spinning Mill plant. It was corroborated that all 5 toilets in male bathroom were dirty.

Plan Of Appoint a person to ensure toilets in entire factory are kept clean. This should include
Action: cleaning log to ensure they are cleaned at regular intervals.

September 2010: Send documentation of cleaning log to ensure all toilets will be kept clean.

Deadline 09/30/2010
Date:

Supplier
CAP:

Supplier CAP
Date:

Action Restrooms assigned to our employees are maintained in optimum hygiene and
Taken: cleanliness conditions. We will continue working and taking care that restrooms are always maintained in optimum state. Factory has appointed personnel in charge of a cleaning log for bathrooms.

Plan Yes
Complete:

Plan 12/13/2010

Complete

Date:

Hours of Work: Rest Day

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

Noncompliance

Explanation: From record review sample: In 10 cases out of 13 (76.9%), it was corroborated that factory has not provided production line employees (sewing department) 1 day off in a 7-day period. This was corroborated in 2 consecutive weeks, in June and July of 2010.

Plan Of Action: Ensure workers receiving 1 day off in every 7 days. Consider a worker rotation to ensure workers receive their 1 day of rest per week and production lines could continue to run.

September 2010: Immediately ensure all workers are receiving 1 day of rest per week.

Deadline 09/30/2010

Date:

Supplier

CAP:

Supplier CAP

Date:

Action The following policy has been adopted:

Taken:

1. Weekly rest is mandatory for all employees.
2. According to Peruvian law, weekly rest can be taken any day of the week. Weekly rest can be taken on different days as well.
3. Supervisors of each area are in charge of enforcing this policy.
4. HR personnel will be responsible for supervising appropriate enforcement of this policy. They will also maintain proper documented controls.

Plan Yes
Complete:

Plan 12/13/2010
Complete
Date:

Hours of Work: Overtime/Calculation Over Period Longer Than One Week

HOW.10. Employers are allowed to calculate normal hours of work as an average over a period of longer than one week where local laws, regulations and procedures provide for such a possibility but only when all formal and procedural requirements attached to such calculation (for instance, obtaining official permission from the relevant authorities or limits to the period during which such calculations can be made) are met. The basis for such calculation shall, however, remain at all times the lesser of 48 hours per week or legal limits on hours of work in the country of manufacture or, where such legal limits do not exist, the regular work week in such country. (S)

Noncompliance

Explanation: From a sample of records review: 9 cases out of 13 (69.2%) showed that employees have worked more than 60 hours per week. In the worst case, 1 employee from sewing department worked 84 hours per week. This finding corresponds to the months of June and July of 2010.

Plan Of Action: Workers should work no more than 60 hours weekly. Implement systems and controls to track OT performed by workers. Ensure supervisors and management are aware of employees who have already reached 60 hours for the week, and that those employees are not requested to work more once they reach this limit. Appoint member of management to be in charge of ensuring supervisors are reviewing hours worked. Hold training with workers that includes educating them on voluntary OT and hazards of working excessive OT. Workers working any OT should agree OT worked is voluntary. Put a system in place where for each OT shift, each worker signs a sheet agreeing to voluntary OT for that shift.

September 2010: Create plan on how to reduce hours. Ensure plan includes implementing systems and controls to track OT. Send copy of voluntary OT sheet workers have signed. Ensure Hours of Work policy is in place that: a) describes principles and rules on hours of work in workplace; b) commits to proper capacity planning; c) prohibits excessive working hours; d) outlines regular hours of work expected (employees shall not be required to work more than lesser of 48 hours per week and 12 hours OT, or limits on regular and OT hours allowed by law of country of manufacture); e) provides provisions for rest days; f) prohibits forced OT and outlines when OT will come into effect; g) outlines what constitutes extraordinary business circumstances and ensures all OT is performed voluntarily; and h) commits to transparency and legal/code compliance. Management shall create procedures that include guidelines for: a) recording working hours; b) OT management; c) extraordinary/unusual business circumstances; d) breaks, rest days and leaves; e) non-retaliation steps in case workers refuse OT; and f) legal/code compliance.

October 2010: Train workers and begin to gradually reduce hours. Send copies of trainings to GFSI.

**Deadline
Date:** 09/30/2010

**Supplier
CAP:**

**Supplier CAP
Date:**

**Action
Taken:** The following policy and measures have been adopted:

1. New personnel have been hired (approximately 125 people).
2. Nobody will work more than 60 hours per week, meaning no one will work OT in excess of 12 hours.
3. Supervisors of each area are in charge of enforcing this policy.
4. HR personnel will be responsible for supervising the appropriate enforcement of this policy. They will also maintain proper documented controls.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 12/13/2010

